

Disentangling the Impact of Financial Inclusion on Household Well-Being: The Business Finance Channel ^{*}

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November 7, 2023

Abstract

A large literature shows that bank access increases household well-being by increasing household access to credit. However, using a regression discontinuity design based on a major bank expansion program in India, we show that bank access increases household financial well-being by increasing borrowing by firms, not households. Following the expansion in bank access, firms borrow more, earn higher revenues, employ more workers, and household wage earnings rise, leading to increases in household consumption expenditures, savings, and investments. Heterogeneity analyses show that bank expansion predominantly spurs borrowing by urban, manufacturing and service sector firms, with limited impact on rural, agricultural firms.

Keywords: Financial Inclusion, Bank Branch Deregulation, Regression Discontinuity, Household well-being, Structural Transformation, Urbanization, Financial Development

JEL Codes: G21, G38, G51

^{*}We are grateful to Rikhia Bhukta, Daniel Carvalho, CY Choi, William Crowder, Rick Harbaugh, Kristoph Kleiner, Pushkar Maitra, Ray Miller, Kunal Sachdeva, André F Silva, Ramaa Vasudevan, Emily Williams, Mahmut Yasar, and participants at Finance in the Tuscan Hills 2023, Florence School of Banking and Finance, and Northern Finance Association, 2023.

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